IN THE

Supreme Court of the United States

OCTOBER TERM, 1955

No. 76

THE COLD METAL PROCESS COMPANY and THE UNION NATIONAL BANK OF YOUNGSTOWN, OHIO, TRUSTEE, Petitioners,

v.

UNITED ENGINEERING & FOUNDRY COMPANY, Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Third Circuit.

PETITIONERS' REPLY BRIEF

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PETITIONERS' REPLY BRIEF

I.

Respondent's Brief Is Inaccurate in Its Characterizations of the Counterclaim.

Throughout its brief, respondent has referred to "Civil Action 7744" as though it were an independent action and merely "ancillary" to this action (Equity 2991), although, in a few instances, it has referred to it as "the so-called 'counterclaim.'" This tends only toward confusion.

The mere fact that respondent mistakenly filed its counterclaim as an "ancillary" action at the outset and got the Clerk to assign a new number to it does not change the nature of the pleading, as determined by the Court of Appeals when the issue was squarely presented to it (190 F. 2d 217, 218, 219, 220, 221). That Court held the pleading to be a counterclaim in Equity 2991 (the case at bar), stating (p. 218):

"The pleading is in reality a 'counterclaim.'"

Throughout its opinion, the Court referred to it as a "counterclaim" and, at page 221, stated further:

> "So clearly is the subject matter of United's counterclaim ancillary to the proceeding at No. 2991 that had the counterclaim matured when the original answer was filed, the counterclaim would have been 'compulsory' within the purview of Rule 13 (a) and had United failed to plead it, it could not subsequently have been maintained. United's counterclaim grew out of the same 'transaction' or 'occurrence' which created Cold Metal's claim, viz. the 1927 agreement."

After that decision, respondent moved for leave to file its "counter-claim" (R. 44). It was granted permission "nunc pro tunc to file its counterclaim" (R. 45); and the amended pleading which respondent filed was labeled, in part, as a "Counterclaim in Equity No. 2991" (R. 28).

Therefore, it is clear that the pleading in question is a counterclaim, as the Court below held, and that it grew out of the same "transaction" or "occurrence" as the main claim asserted by petitioners.* And, as is

* The Court below held that, had the counterclaim matured when the original answer was filed, it would have been a compulsory one and then erroneously said it had not matured. The fact is that it did mature before the original answer, as respondent's brief here (p. 4) shows. Petitioners had sued U. S. Steel Corp. on the basis of respondent's mills on July 7, 1934, four months *before* this action (Equity 2991) was filed. And one month before this case was filed, respondent, as it now admits (Br. 4), filed an action in Ohio complaining about the same things as those asserted in its counterclaim fifteen years later.

pointed out, *infra*, pages 9-11, it seeks recoupment or set-off on the basis of the same facts as those on which it relies defensively to destroy petitioners' right of recovery. In fact, in some instances, respondent seeks recoupment in respect of exactly the same mills as those on which petitioners have been awarded royalties by the Master and the District Court.

II.

Factually, Respondent's Brief Is Inaccurate in Several Respects.

The issues presented to this Court do not involve the merit or lack of merit in the positions asserted by the parties in this long and involved litigation. However, there are a few points asserted by respondent on which we feel constrained to comment.

Respondent (Br. 6) says that petitioners granted the U. S. Steel Corp. "an unlimited license," evidently trying to create the impression that petitioners disregarded respondent's rights. This is incorrect. Reference to the Master's Report (Vol. II of United's Appendix, Appeal 11,582, copies of which were filed with the Petition for Certiorari), at pages 34 and 94, shows that this and other licenses were "made subject to United's rights under the 1927 contract" and "do not invade United's license rights under the contract."

Respondent says (Br. 11, 17, 18) that below petitioners take the position that "United has never had any license" and that the scope and "effectiveness of United's license" are in issue. These assertions are incorrect. The existence of respondent's rights and the nature thereof were determined by the decision of the

Court of Appeals (107 F. 2d 27) long ago when the case was remanded for an accounting; and any controversy in regard thereto arises solely by reason of respondent's attempts to defeat petitioners' right of recovery by now arguing failure of consideration and by its defensive counterclaim based on the same antiquated facts.

Respondent (Br. 20) says that "after the mandate on the 1939 appellate decision came down, Cold Metal began the series of illegal acts" complained of in the counterclaim. This is incorrect. Respondent, in its brief (Br. 4), admits that petitioners sued one of its customers in 1934. See also respondent's original answer in this case (R. 112, 118) and the District Court's findings (R. 156). And, prior to the bringing of this suit, respondent had complained, in Equity No. 5059 in Ohio, about the same conduct of petitioners as that complained of in the counterclaim (R. 158).

Respondent (Br. 14) also says that the *Bendix* case (195 F. 2d 267) "has now been followed by all of the Courts of Appeals that have had occasion to apply and pass directly on the validity of" Rule 54 (b). This is incorrect. See *Gold Seal Co. v. Weeks,* (C.A. D.C., 1954) 209 F. 2d 802.

Respondent (Br. 8) has commented upon the order of Judge Miller in the District Court covering postponement of the trial on the counterclaim. Contrary to the impression respondent may have attempted to leave with the Court, there never was any thought on the part of petitioners or Judge Miller that there should be an appeal on the questions disposed of by the Master's report before trial of the counterclaim. The order of Judge Miller (R. 45-46) merely postponed the trial on

the counterclaim until the objections to the Master's report were disposed of by the District Court. Respondent, in this same connection, asserts (Br. 18) that the issues decided by the District Court "have been treated by two judges of the district court as properly severable for trial" from the issues involved in the counterclaim. This is incorrect, but, in any event, is immaterial. Respondent is confusing Rule 42, relating to severability of issues for separate trials, with Rule 54 (b), which relates to severability for purposes of judgment. Rule 42 is expressly governed by Rule 13 (i), which states that the District Court can enter separate judgments on severed issues only in conformance with Rule 54 (b).

III.

The Judgment in Issue Is Not a Final and Appealable Judgment Measured by Any Proper Standard.

A. The Judgment Would Not Have Been Appealable Prior to the Rules of Civil Procedure.

As we have pointed out (Br. 16, 21-23), the judgment in question would not have been appealable prior to the enactment of the Rules because it does not dispose of a complete judicial unit. It leaves completely unadjudicated a defensive counterclaim for recoupment or set-off which arises out of the same transaction or occurrence as petitioners' claim. Moreover, as we shall point out (*infra*, pp. 9-11), the judgment below, in reality, does not even dispose of a whole claim.

Respondent argues that the "so-called 'counterclaim'" would have been maintainable as a separate ancillary action under pre-rules practice. This argu-

ment is outside the scope of the issues presented here. It flies in the face of the express holding of the Court of Appeals, on an earlier appeal by respondent (190 F. 2d 217), that respondent's claims are maintainable only as a counterclaim in this case. Also, it ignores the fact that the amended pleading we are concerned with here was filed as a counterclaim pursuant to the direction and mandate of the Court of Appeals.

Respondent also argues (Br. 24-25) that the judgment would have been appealable under the principle of *Forgay et al. v. Conrad,* (1848) 6 How. 201, and, in support of its argument, sets forth an emasculated quotation from that case which omits extremely pertinent passages of the Court's statement and gives an entirely incorrect picture of the Court's holding in that case.

In that case, the nature of the complaint was stated by the Court as follows (p. 202):

> "The object of the bill was to set aside sundry deeds made by Banks for lands and slaves, which the complainant charged to be fraudulent, and for an account of the rents and profits of the property so conveyed; and also for an account of sundry sums of money which he alleged had been received by one or more of the defendants, as specifically charged in the bill, which belonged to the bankrupt's estate at the time of his bankruptcy."

The nature of the decree in question was stated as follows (p. 204):

> "The case before us is a stronger one for an appeal than the case last mentioned. For here the decree not only decides the title to the property in dispute, and annuls the deeds under which the de-

> fendants claim, but also directs the property in dispute to be delivered to the complainant, and awards execution. And according to the last paragraph in the decree, the bill is retained merely for the purpose of adjusting the accounts referred to the master."

The Court went on to point out that, if appellants had to wait until the accounts were reported by the Master, they would be irreparably injured because the lands and slaves would be taken and sold and the proceeds distributed before the appellants could be heard. The Court went on to say (p. 204):

> "And when the decree decides the right to the property in contest, and directs it to be delivered up by the defendant to the complainant, or directs it to be sold, or directs the defendant to pay a certain sum of money to the complainant, and the complainant is entitled to have such decree carried immediately into execution, the decree must be regarded as a final one to that extent, and authorizes an appeal to this court, although so much of the bill is retained in the circuit court as is necessary for the purpose of adjusting by a further decree the accounts between the parties pursuant to the decree passed."

Thus, the Court's statement of the pertinent rule does not support respondent's argument but, instead, shows the inapplicability of the rule to this case, in which there is nothing but a money judgment on which execution has been stayed.

The *Forgay-Conrad* rule, as this Court's decisions show, applies only where irreparable injury would re-

sult from the immediate transfer of property or some other similar act resulting from the carrying out of the decree and where only ministerial acts remain to be done.

B. The Judgment Would Not Have Been Appealable Under Original Rule 54 (b).

Respondent argues that the judgment would have been appealable under original Rule 54 (b), basing its argument on the Court of Appeals' statement that the counterclaim was not compulsory. The authorities cited in petitioners' main brief (pp. 16, 24) show that respondent's argument is incorrect.

Moreover, whether the counterclaim was compulsory or permissive is not determinative of the question. Original Rule 54 (b) says that "upon a determination of the issues material to a particular claim and all counterclaims arising out of the transaction or occurrence which is the subject matter of the claim," the Court may enter a judgment disposing of such claim. Thus, the test under the original rule was whether there was a determination of "the issues material to a particular claim and all counterclaims" arising out of the same transaction. Here the counterclaim, as the Court of Appeals held, grew out of the same transaction or occurrence. Moreover, there has not been a determination of all issues "material to a particular claim" since there was no determination of respondent's claim for recoupment or set-off which is based upon the same facts as its other defenses and seeks to extinguish the very judgment from which respondent has appealed.

C. THE JUDGMENT IS NOT APPEALABLE UNDER ANY PROPER CONSTRUCTION OF AMENDED RULE 54 (b).

Respondent asserts (Br. 14-18) that the judgment of the District Court is appealable under amended Rule 54 (b); but the arguments advanced in support of this conclusion, which are predicated on the facts of this case, serve only to point up (a) that the main claim and respondent's counterclaim for recoupment are inextricably interrelated, (b) that, in reality, the counterclaim for recoupment is nothing more than a *defense* to petitioners' claim for royalties, (c) that both the main claim and the counterclaim for recoupment or set-off (whichever it is called) must both be determined before there can be a final judgment as to the royalties due, and (d) that this interrelationship between the main claim, the defenses asserted thereagainst (particularly the defense of failure of consideration arising out of the same facts and circumstances as those involved in the counterclaim), and the defensive counterclaim indicate clearly that the District Court did not even dispose of a whole claim. We refer particularly to respondent's arguments at page 15, last paragraph, page 17, second paragraph, and page 17, last paragraph. See also page 7, first paragraph.

The main claim asserted in the complaint and supplemental complaint is petitioners' right, under the 1927 agreement, to royalties on mills manufactured and sold by respondent. Although recovery of royalties was ordered (R. 20-22), respondent, before the Master and the District Court, asserted (R. 49-50) that there was a failure of consideration by reason of (a) petitioners'

filing of infringement suits against purchasers of mills from respondent, (b) petitioners' direct licensing of users of mills under patent 1,779,195, and (c) statements made in litigation as to the doubtful and limited nature of respondent's rights. These defenses, on the merits, were rejected by the Master and the District Court.* Respondent now seeks to appeal from those rulings and then, if they are sustained, to go back to the District Court and, on the same facts and circumstances, establish a basis for recoupment or set-off so as to extinguish the very judgment from which it has appealed.

A review of the counterclaim (R. 28-44) shows clearly (a) that respondent relies upon the same matters as those stated above, namely, petitioners' filing of infringement suits, petitioners' licensing of others, and statements of petitioners' counsel in other litigation, (b) that respondent is seeking to recover from petitioners, for purposes of recoupment only, royalties paid petitioners by others on some of the same mills on which it has been determined that petitioners are entitled to recover from respondent, and (c) that the object of the counterclaim is to get recoupment only to extinguish the judgment in this case. This is evident not only from the counterclaim, but also from respondent's statement thereof (Br. 7).

Thus it is clear that the counterclaim not only arises out of the same transaction or occurrence but

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* The District Court also stated (R. 51) that the judgment of specific performance stands as a bar to all such defenses, citing *Cromwell v. County of Sac,* (1876) 94 U.S. 351.

also involves exactly the same factual matters as respondent's present defenses and that, until the District Court passes on the counterclaim, it will not have adjudicated even a whole claim.

It is clear, under the authorities, that amended Rule 54(b) is inapplicable where multiple claims are not involved. It is likewise clear, under all of the authorities, that, under amended Rule 54(b), the Court cannot properly enter a final judgment upon less than a whole claim. In these regards, see:

United States Plywood Corporation v. Hudson Lumber Co. et al., (2 Cir., 1954) 210 F. 2d 462;

Gold Seal Company v. Weeks, Secretary of Commerce et al., (C.A. D.C., 1954) 209 F. 2d 802;

Leonidakis v. International Telecoin Corp., (2 Cir., 1953) 208 F. 2d 934;

Pabellon v. Grace Line, Inc., (2 Cir., 1951) 191 F. 2d 169.

Of course, if amended Rule 54 (b) is given the broad, conclusive, affirmative construction which some of the Courts have given it, the inclusion of the talismanic language of the rule in a judgment would make it final even though the judgment did not cover a whole claim, as is the case here. Any such construction clearly would be contrary to the intent and purpose of the amended rule. As a minimum, it was intended that at least a whole claim should be adjudicated. To hold otherwise would do violence to the final judgment requirement of Section 1291. And, since the District

Court, in this case, did not even adjudicate a whole claim, the judgment in question does not constitute a final judgment.

Respondent has characterized its counterclaim as being for recoupment. That characterization is accurate, but it only serves to point up the necessity of a determination of the counterclaim before there can be a final appealable judgment, since recoupment always grows out of the same transaction and is defensive in nature:

Bull, Executor v. United States, (1935) 295 U.S. 247;

City of Grand Rapids, Michigan, et al. v. McCurdy, (6 Cir., 1943) 136 F. 2d 615;

Pennsylvania Railroad Co. v. Miller, (5 Cir., 1941) 124 F. 2d 160.

IV.

Conclusion.

We submit that, tested by any proper standard, the decision of the District Court is not a final judgment from which an appeal can be taken, that amended Rule 54 (b) should not be construed in such a way as to permit the District Courts to fix and enlarge appellate jurisdiction, that, if so construed, amended Rule 54 (b) exceeds the rule-making power of this Court and is invalid, that the Court below erred in accepting jurisdiction, and that its decision should be reversed and respondent's appeal dismissed and the case remanded to the District Court for trial on respondent's counterclaim.

Respectfully submitted,

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